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GOVERNMENT CONTROL OF NORTH KOREAN FOREIGN TRADE

[This report presents some information on government control of North Korean foreign trade, extracted from six volumes of mimeographed business reports of the Korean Trading Company, Inc (Choson Sangsa Chusik Hoesa). This is the government-controlled foreign trade monopoly in North Korea. The documents, stamped "Extremely Confidential," were prepared by Yi Won-hyon, president of the company, who presented them at the company's annual meeting of overseas agents, branch managers, and executive officers. The meeting was held at the main office of the Korean Trading Company in P'yongyang, on 13 February 1950, to review the company's business records for 1949.

According to the documents, government control over the Korean Trading Company since February 1948 has had the following effects: (1) reorganization to strengthen the company financially, to weed out profiteers, and to expand trade with Hong Kong; (2) increase the proportion of "state-planned" imports and exports at the expense of private imports, also changed the type of items imported and exported; (3) creation of a multiplicity of import and export plans and frequent changes of these plans coupled with "emergency import orders" and direct orders placed with the Korean Trading Company by different government agencies, all of which made the business very complicated and confusing; (4) excessive red tape, exemplified by too many conferences with government officials, and delays, which caused a slow moving of inventory and capital.<sup>7</sup>

## Reorganization and Trade Expansion

On 13 February 1948, the Korean Trading Company was placed under direct control of the Ministry of Commerce of the Democratic People's Republic of Korea. The company was reorganized to "strengthen the financial position of the company and to weed out the profiteers and dishonest elements who have infested it." The first important task of the company following the reorganization was to expand its

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trade with Hong Kong, North China, South Korea, and to open up trade with Japan. During 1948 and 1949, the company slowly expanded trade with the above areas and established a legitimate trade channel with Japan, in spite of adversities such as loss of an uninsured cargo in a shipwreck of one of the transport vessels chartered by the company. In 1949, about 77 percent of both import and export trade was with Hong Kong; about 15 percent with North China, and the balance with South Korea and Japan. [The Korean Trading Company does not handle trade with the USSR.]

#### State-Planned Imports and Exports

One of the immediate results of government control was the increased proportion of "state-planned" imports and exports and a change in the type of items imported and exported. In 1948, the total value of exports handled by the company was 916,336,000 won, of which approximately 64 percent represented the state-planned exports, and 36 percent comprised private exports. However, in 1949, of the total 1,362,170,000 won of exports handled by the company approximately 71 percent represented the state-planned and 29 percent private exports.

In 1948, chemical products including chemical fertilizers represented the largest percentage, 37.8 percent, of the total exports the company handled in that year. But in 1949 the amount dropped to 9.3 percent. In 1948, ammonium sulfate was the largest single item the company exported to both Hong Kong and China proper, but the amount to Hong Kong dropped from 35 percent of the total exports to Hong Kong in 1948 to less than 4 percent in 1949, and that exported, to China from 47 percent in 1948 to 22 percent in 1949. In 1948, the company exported dynamite worth 2,060,000 won to China, but in 1949 it exported none.

On the import side, in 1948 the total value of imports handled by the company was approximately 96,350,000 won. Of this, 95 percent represented private imports and 5 percent the state-planned imports. But in 1949, of the total of items imported, amounting to 1,348,912,000 won about 70 percent comprised goods imported under state-plans and while the remaining 30 percent included goods imported under "emergency government orders" and the goods imported privately.

The relative percentage changes in the type of items imported during 1948 and 1949 were as follows:

<u>Imports</u>	<u>1948</u>	<u>1949</u>
Industrial materials	39.6	54.3
Basic necessities of life (Example: cotton sheeting)	49.7	33.0
Cultural materials (Example: printed matter)	2.2	5.0
Re-exports	8.5	4.7
Others	--	3.0
	<u>100.0</u>	<u>100.0</u>

Of 33 shiploads totaling 103,332 short tons of import and export goods transported for this company by various marine transport companies in 1949, the government-owned Korean-Soviet Marine Transport Company, generally known as "Mortrans," transported 21 shiploads totaling 59,637 short tons.

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Multiplicity of Plans

The government imposed a multitude of plans which made the business extremely perplexing. Thus, the "State Critical Commodities Import-Export Plan," "State Non-critical Commodities Import-Export Plan," "Corn Import-Export Plan," "Spinning Machines Import-Export Plan," "Private Import-Export Plan," and hosts of other plans were formulated and imposed in a rapid succession without any orderly relationship between one plan with another, as a result of government needs which mounted "in a dizzy tempo" during 1949.

The State Planning Commission, which formulated these plans, made an over-all change in plans three times during the year. Thus, in 1949, there were "First Half-Year Plan," "Second Half-Year Plan," and "After-November Plan." In addition to these over-all changes in plan, the Foreign Trade Bureau frequently made last minute modifications to the plans. Over and above these plans the Korean Trading Company received in 1949 "emergency import orders" for 417 items totaling 1,171,583,000 won, or 86.9 percent of the total amount actually imported by the company.

Aside from the government plans and emergency import orders channelled through the Foreign Trade Bureau, various government agencies placed import orders directly with the company. These orders totaled 26,170,000 won in 1949, classified by agencies as follows:

<u>Agencies</u>	<u>Orders</u>		<u>Value</u>	
	<u>No of Orders</u>	<u>Percentage</u>	<u>Amount in 1,000 Won</u>	<u>Percentage</u>
Ministry of National Defense	5	10.4	5,256	20.0
Ministry of Internal Affairs	3	6.3	3,480	13.3
Ministry of Industry	13	27.0	5,473	20.9
Ministry of Agriculture and Forestry	4	8.3	1,451	5.5
Ministry of Commerce	2	4.2	921	3.5
Ministry of Culture and Propaganda	11	22.9	4,383	16.7
Ministry of Health	2	4.2	678	2.6
Ministry of Municipal Management	2	4.2	3,513	13.4
Special Products Guidance Bureau	3	6.3	703	2.7
Forestry Bureau	2	4.2	95	0.4
Kiyop Ch'ongsa (State-owned industrial company)	1	2.0	217	1.0
	<u>48</u>	<u>100.0</u>	<u>26,170</u>	<u>100.0</u>

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The Korean Trading Company did not fulfill all of the import plans and orders imposed in 1949. The total government import plans and orders in 1949 amounted to 3,338,975,000 won, whereas the amount actually imported was 1,348,912,000 won, or approximately 40 percent of the plans and orders.

The president of the Korean Trading Company believes that the company should take the initiative in formulating foreign trade programs, based on foreign and domestic market situations, and submit such programs to the government rather than for government plans and orders. He believes that there was a lack of interest and enthusiasm on the part of the company to formulate its own business plans.

Excessive Red Tape

Excessive official routines and delays accompanied the government control of the Korean Trading Company. For example, when an excess of imports over exports for 1948 did not show up in the records due to an accounting discrepancy between the main office and the Hong Kong office, the company's officials were called in twice by the chairman of the State Planning Commission; eight times by the vice-minister of commerce; and "innumerable" times by the director of the Foreign Trade Bureau for the purpose of straightening out the records. The documents prepared for these conferences reached several hundred pages.

The government control also resulted in a low inventory turnover of imported goods and the consequent tying up of capital in the inventory because of the official delays. It took an average of 29 days from the time the goods entered the port to the time the company received disposal instructions from the Foreign Trade Bureau, during which time the goods were held up in the storage and losses occurred due to damages, deterioration, pilferage, etc.

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